Total Tax Contribution survey of the members of the Association of British Insurers (ABI)

December 2022

A study prepared by PwC for the ABI

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About the Association of British Insurers

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 320,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

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Foreword

Mervyn Skeet

Head of Taxation, ABI

Welcome to the 2022 PwC Total Tax Contribution (TTC) survey of the Association of British Insurers (ABI) membership. This is the sixth survey that has been carried out by PwC for the ABI to examine the contribution made by its members to UK public finances. The period covered by the survey was marked by the coronavirus pandemic in the UK and a macroeconomic context of slowing GDP growth and is published at a time of increasing inflation and instability in the geopolitical environment.

Twenty-nine companies took part in the survey, providing data on their UK tax payments in accounting periods that ended on 31 March 2021 and 31 March 2022. The companies taking part in the survey represent 77% of the total Gross Written Premiums (GWP) written by the entire ABI membership for that year, so the results are representative of the sector.

The participation level demonstrates the value for companies in preparing and understanding their TTC data. This survey uses the same methodology as the previous studies, so it is instructive to compare the results. The trend in overall contribution and the profile of taxes is influenced by both legislative (including the introduction of new taxes and changes to the rates of existing taxes) and economic changes.

Despite the impact of market conditions on profitability, the TTC has increased by 6.9% between the 2020 and 2022 surveys. Furthermore, the TTC of the ABI membership continued broadly the same as a share of total government receipts (2.1%).

The survey again shows that faced with challenging economic conditions, insurers' tax and wider economic contribution remains significant. In addition to the increase in taxes borne and collected, the study participants employ 84.4% of the UK insurance sector workforce; wages, salaries, and employment taxes have all increased since the 2020 study.

We strongly welcomed the Government's recent Autumn Statement announcements on changes to the Solvency II regime, which will allow the UK insurance and long-term savings sector to play an even greater role in supporting the levelling-up agenda and the transition to net zero. Meaningful reform of the rules creates the potential for the industry to invest over £100billion in the next ten years in productive finance, such as UK social infrastructure and green energy supply, whilst ensuring very high levels of protection for policyholders remain in place.There are opportunities for broader tax reform alongside regulatory reform to ensure a competitive international tax regime that sits alongside government priorities in supporting industrial sectors, addressing regional disparities and accelerating technological development to address the future business environment. However, the implementation of the new OECD global tax rules must not lead to UK (re)insurers being disadvantaged. The UK is moving faster than any other member of the G7 to implement Pillar Two of these rules, and this is before international guidance is complete or agreed. If the UK were to implement rules which differ from other jurisdictions, and/or does so before others, this could have a significant impact on the competitiveness of UK businesses and would increase the administrative burden.

This report is a good reminder that all taxes, whether levied on income, premium or some other base, have an important role in ensuring the competitiveness of the industry. In addition, how and when changes to taxes are implemented will impact on both businesses and consumers and this needs careful consideration.

In closing I would like to thank the participating companies for their support and encourage business leaders and other stakeholders to recognise the importance of their continued engagement with the tax agenda in the future.

Executive summary

The key findings from this survey show:

We estimate that the Total Tax Contribution (TTC) for the ABI membership is £17.2bn, the highest since the study began and has more than doubled since 2008, which was during the financial crisis (£8.2bn).

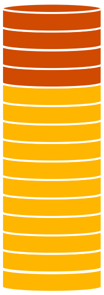
The ABI membership contributed significantly to the UK economy despite rising inflation and market volatility. ABI members paid an estimated TTC (including taxes borne and taxes collected) in the region of £17.2bn[1], comprising £4.8bn of taxes borne and £12.4bn of taxes collected, or 2.1% (2020: 2.2%) of total UK government tax receipts in 2022 (the year to 31 March 2022).

£17.2bn

Total Tax Contribution

2.1%

of total UK government tax receipts in 2022



£4.8bn

Taxes borne

£12.4bn

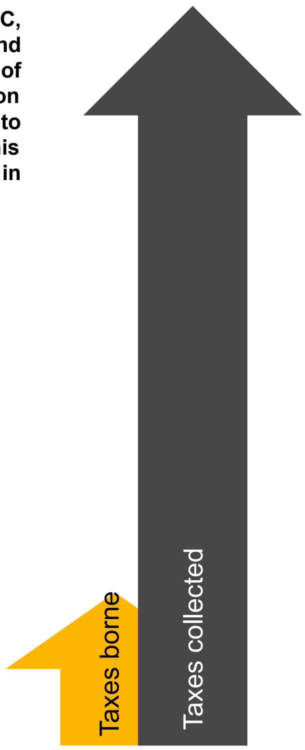
Taxes collected

On a like-for-like basis, TTC has increased by 6.9% since the last study.

Both elements of the TTC, namely taxes borne and collected, saw an increase of 0.1% and 9.7%, respectively, on a like-for-like basis compared to the previous study. This resulted in an overall rise in TTC of 6.9%.

6.9%

increase in TTC



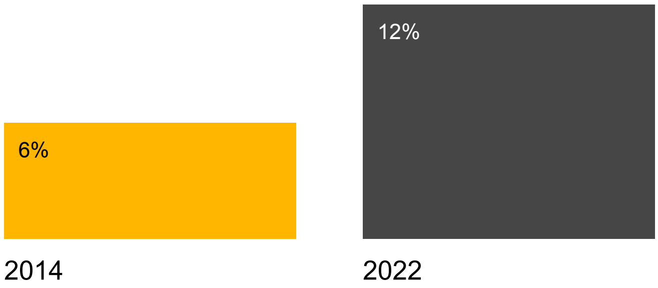
0.1% 9.7%

Insurance premium tax makes up a significant portion of the sector's taxes.

Insurance premium tax is a significant tax for the sector, with participants reporting that nearly a third of TTC is IPT.

IPT has undergone three rate increases since 2014. In 2014 the standard rate of IPT was 6%, and in 2022 this rate is 12%.

Rate of insurance premium tax



Tax deducted at source (including PAYE on annuities and drawdowns) increased to be a higher proportion of TTC at 26.0% (£3.2bn) from 17.9% (£1.9bn) in the previous study.

This increase could be explained by the rise of the total number of pension plans accessed for the first time in 2021/22, increasing by 18% to 705,666 compared to 2020/21 (596,080)[2].

Furthermore, drawdowns of pensions also saw an increase of 24% from 165,988 in 2020/21 to 205,641 in 2021/22[3].

The overall value of money withdrawn from pension pots also rose to £45,638m in 2021/22 from £37,432m in 2020/21 – an increase of 22%[4].

17.9% 26%

[1] The TTC for 2020 was £16.1bn with £4.9bn of taxes borne and £11.2bn of taxes collected.

[2] Financial Conduct Authority, Retirement income market data 2021/22, available at https://www.fca.org.uk/data/retirement-income-market-data-2021-22.

[3] Ibidem.

[4] Ibidem.

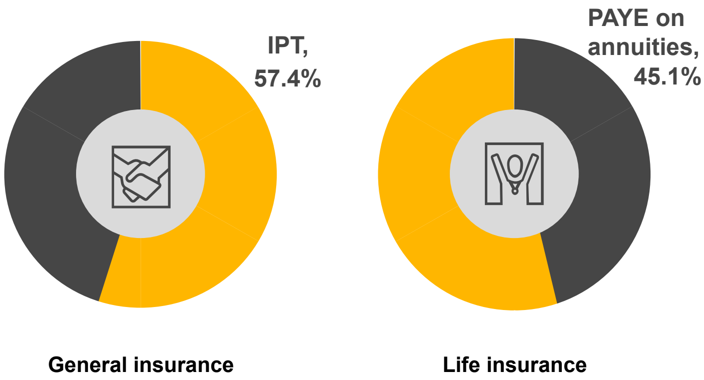
Executive summary (continued)

General and life insurers experience differing tax profiles.

Insurance Premium Tax is a significant tax for general insurers and accounts for 57.4% (2020: 59.4%) of the TTC profile.

For life insurers, the most significant tax is tax deducted at source (including PAYE on annuities and drawdowns), which accounts for 45.1% (2020: 39.8%) of TTC.

This emphasises the stark differences in the tax profile for the different sub-sectors.

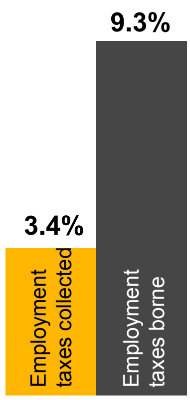


84.4%

Wages, salaries, and employment taxes have increased during the period, with the ABI survey participants employing at least 84.4% of the total UK workforce in the insurance sector.

The insurance sector has shown resilience through the post-pandemic period and cost-of-living crisis by continuing to support employment.

Since the last study, wages and salaries saw a rise of 3.5% alongside an increase in employment taxes borne and collected of 9.3% and 3.4%, respectively, on a like-for-like basis.



Despite the number of employees decreasing by 5.7% on a like-for-like basis, the survey participants employed 84.4% of the total UK workforce in the insurance sector. They employed 96,666 people (2020: 91,909).

Purpose and outline of the survey

The purpose of the survey is to show the taxes that Association of British Insurers (ABI) members contribute to the UK public finances. The Total Tax Contribution (TTC) survey of the ABI members had a record number of participants. Twenty-nine companies (2020: twenty-five) took part in the survey, providing data on their UK tax payments in the accounting periods that ended on the year 31 March 2021 (2021) and 31 March 2022 (2022). The participation level demonstrates the value for companies in preparing and understanding their TTC data. This is the sixth survey PwC has carried out for the ABI using the same methodology, and we have therefore been able to compare the results.

TTC methodology

The surveys use the PwC TTC methodology, which looks at both the taxes borne and taxes collected. Taxes borne are all the taxes levied on a company, which are its cost and will affect its results. They include corporation tax, irrecoverable VAT, and employers' NIC. Taxes borne are a company's direct contribution to tax revenues. Taxes collected include employee income tax and NIC administered through the payroll, the insurance premium tax (IPT) charged to customers and PAYE deducted by insurance companies administering pension funds on behalf of other companies. These are the taxes of employees and customers, respectively, but are collected from them by the company and paid to the Government. Taxes collected are generated by the company's business activity and are part of its indirect contribution to tax revenues.

How we collected the data

This sixth survey has been carried out using data provided by twenty-nine companies on all their UK tax payments. The companies taking part in the survey represent 76.9% (2020: 77.9%) of the total Gross Written Premiums (GWP) written by the entire ABI membership for that year, so the results represent the sector as a whole[5]. They cover general insurance business (including motor vehicle liability and other insurance, fire and other damage to property, marine, aviation and railway rolling stock and general liability, and other general business) and life insurance business (including life and annuity, marriage and birth, linked long-term, permanent health and other life business). The results are a measure of cash taxes paid, covering both taxes borne and taxes collected. They provide information that would not otherwise be in the public domain since this is not information the companies are required to disclose in their financial reports. PwC has anonymised and aggregated the data provided by the insurance companies to produce the survey results. PwC has not verified, validated, or audited the data and cannot, therefore, give any undertaking as to the accuracy of the survey results. This is indicated when we refer to data published by the Government and HMRC.

The period covered

This sixth survey looks at tax payments by ABI member companies in their accounting periods ending in the tax year to 31 March 2021 and 31 March 2022. The majority of participants have a calendar year ending on 31 December 2021[6]. The first survey we carried out looked at tax payments by insurance companies in their accounting year ending in the tax year to 31 March 2007. The second survey (relating to 31 March 2009) showed the impact of the recession and financial crisis. The third survey (relating to 31 March 2011) showed the position as the economy emerged from the crisis, and the fourth survey showed the position as the economy returned to growth.

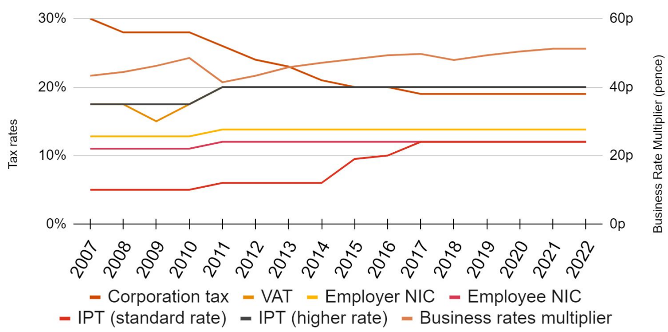
On 23 March 2020, the government announced it would introduce a nationwide lockdown to curb COVID-19, closing many sectors and ordering the public to stay at home. This was incrementally lifted; however, similar restrictions were introduced in late 2020 and early 2021 as infections rose. The sixth survey covers this period and how the ABI membership contributed to the UK public finances during these unprecedented times. The six surveys measure, therefore, the years before, during and after the financial crisis and before and during the COVID-19 pandemic; the impact of these events on UK tax payments by the sector can be seen in the results. All six surveys use the same methodology, and we can compare the results.

Recent changes to the UK tax regime which affect the results

Looking at previous years, the trend in overall contribution and the profile of taxes has been influenced by both legislative (including the introduction of new taxes and changes to the rates of existing taxes) and economic changes. The changes, or lack thereof, are outlined in more detail below:

- The blended statutory rate of corporation tax has been 19% since 1 April 2017 and has stayed at that level.
- The quarterly instalment payments (QIP) regime has been introduced for accounting periods beginning on or after 1 April 2019, establishing a different payment schedule of corporation tax for 'very large' companies.
- The standard rate of IPT from 2017 onwards is 12%. There have been no changes in the higher rate of IPT since 2011, which remains at 20%.
- The VAT rate has been 20% since 4 January 2011.
- The rate of employers' NIC has been 13.8% since 6 April 2011.
- Employee's NIC has remained at 12% since 6 April 2011.
- The business rates multiplier has increased since 2020. In 2022, the multiplier increased from 50.4p to 51.2p.

Figure 1 – Overview of changes to rates of taxation[7]



Economic factors underpin changes in the ABI member's TTC. Looking at the tax contribution across years since 2007, the impact of the financial crisis is evident in the fall in TTC from 2007 to 2009. This is partly driven by a fall in profits leading to lower corporation tax payments over this period but also reflects other factors, such as lower activity resulting in lower irrecoverable VAT receipts. As the economy recovered, the level of TTC also grew.

The impact of COVID-19 on TTC and the broader economic footprint during 2020 and 2021 will be discussed in the following sections.

[5] The GWP figure was provided by the ABI.

[6] 28 companies have a year-end of 31 December 2021, and 1 company has a year-end on 31 March 2022.

[7] Source: https://www.gov.uk/government/publications.

Total tax contribution of the ABI membership in the UK

Total tax contribution in 2022

From the details of the tax payments provided by the 29 (2020: 25) members of the ABI participating in the 2022 study, we estimate that the ABI membership in the UK made a TTC of around £17.2bn (2020: £16.1bn) in the year to 31 March 2022. This comprises £4.8bn (2020: £4.9bn) of taxes borne and £12.4bn (2020: £11.2bn) in taxes collected. The estimated TTC represents 2.1% (2020: 2.2%) of all government receipts for all taxes[8] and corresponds to the total spending in the coronavirus job retention scheme and the self-employment income support scheme[9]. These figures show that these companies majorly contribute to the public finances.

Figure 2 sets out the tax components from the ABI members that provided data towards the study and extrapolated to the ABI membership as a whole[10].

Figure 2 – Total tax contribution of the ABI membership in the UK for the 2022 survey

£'bn	Survey participants	The ABI membership	% of total government receipts
Corporation tax	1.6	2.0	3.2%[(a)]
Other taxes borne	1.9	2.8	
Total taxes borne	**3.5**	**4.8**	**0.6%**
Taxes collected	**8.7**	**12.4**	**1.5%**
Total tax contribution	**12.2**	**17.2**	**2.1%[(b)]**

[(a)] Percentage of government corporation tax receipts

[(b)] Percentage of all government receipts.

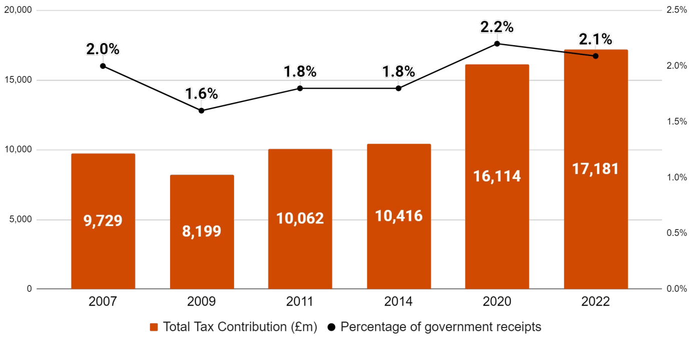
Comparison of the results over the years

Figure 3 compares the TTC of the ABI membership, as estimated in the six surveys we conducted for the ABI, both as an absolute amount and a percentage of total government tax receipts.

This year, the TTC is estimated to be £17.2bn, an increase of 6.6% since 2020. The marginal increase in total taxes borne is mainly driven by the rise in employment tax payments made. Increases in total taxes collected are primarily driven by taxes deducted at source, including PAYE deducted by insurance companies administering pension funds on behalf of other companies.

The estimated TTC fell by 15.7% between 2007 and 2009, due mainly to the lower corporation tax and stamp duties, reflecting the financial crisis and the recession (see 2009 report for details). In 2011, we estimated an increase in TTC of 22.7% compared to 2009, mainly due to the rise in corporation tax payments. In 2014, the estimated TTC increased by 3.5% between 2011 and 2014, due primarily to an increase in taxes borne, driven by the rise in irrecoverable VAT. In 2020, we saw an estimated increase of 54.8%, with the main drivers in taxes collected being insurance premium tax (IPT) and tax deducted at source, including PAYE on annuities.

Figure 3 – Total tax contribution of the ABI membership: Comparison of the results over the years



We estimate that the TTC for the entire ABI membership has increased by **6.8%** between the 2020 and 2022 surveys.

In the current study, we estimate an increase of 6.8% in relation to the 2020 study. This was mainly due to the rise in tax deducted at source, in line with the trend on a like-for-like basis discussed in the 'Trends in tax payments' chapter.

[8] Office for Budget Responsibility, Fiscal Supplementary Table March 2022 – forecast, available at: https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/.

[9] Combined, the coronavirus job retention scheme and the self-employment income support scheme are set to cost £17.0 billion in 2021-22 (and nothing thereafter). Source: Office for Budget Responsibility, A brief guide to the public finances, available at: https://obr.uk/forecasts-in-depth/brief-guides-and-explainers/public-finances/.

[10] Extrapolation has been carried out on a conservative basis. Extrapolation is an estimate based on the proportions of taxes borne and taxes collected to gross written premiums (GWP) established in the survey. Extrapolation has been carried out separately for Life insurers and General insurers business. The GWP figure for the members was provided by the ABI.

[11] 2011 survey figures were restated to remove £350m of deferred tax from the corporation tax paid total.

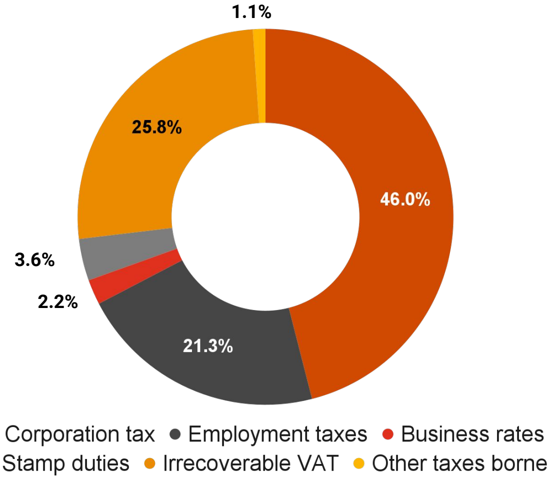
Profile of taxes paid survey participants

As well as looking at the amounts of taxes borne and collected by the survey participants, we can look at the relative proportions of the different taxes in more detail.

Profile of taxes borne

Figure 4 shows the profile of total taxes borne for the twenty-nine insurance companies providing data for the survey. Taxes borne are a direct cost to these companies and have an impact on their financial results. Apart from corporation tax, these taxes are "above the profit before tax line", not separately disclosed in financial statements and usually have very little visibility. Total taxes borne are the direct tax contribution of insurance companies to the public finances.

Figure 4 – Taxes borne by type of tax



Source: Study participants. Results are on an overall basis.

Corporation tax is only 1 of the 17 taxes survey participants bear in the UK. For every £1 of corporation tax paid, there is an additional **£1.17** in other business taxes borne.

Corporation tax is the most significant tax borne, accounting for 46.0% (2020: 39.3%) of the total. Irrecoverable VAT is the second largest tax paid at 25.8% (2020: 26.9%), and employment taxes account for 21.3% (2020: 23.5%) of the total. Corporation tax is one of the seventeen taxes survey participants bear in the UK. For every £1 of corporation tax paid, survey companies paid another £1.17 (2020: £1.54) in other business taxes borne.

The legislative changes described earlier in the report have resulted in a shift in the profile of taxes borne for ABI membership companies. The changes over the thirteen years from 2007 to 2022 are shown in Figure 6. In 2007 corporation tax was 60.7% of total taxes borne, with irrecoverable VAT accounting for 16.0%. In 2022, corporation tax is 46.0% of taxes borne, and irrecoverable VAT is 25.8%.

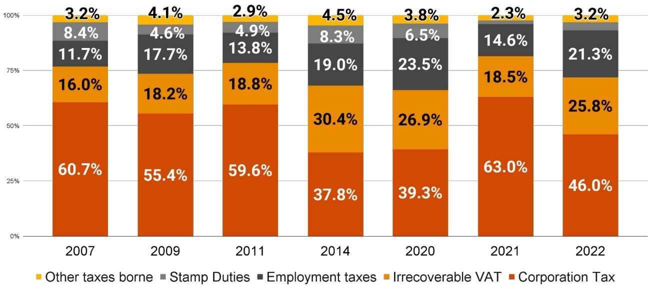
The profile of corporation tax increased from 39.3% in 2020 to 63.0% in 2021. This increase in corporation tax in 2021 is due to the transition period of the quarterly instalment payments regime, which took place for periods starting from 1 April 2019 and includes an additional quarterly instalment within the 2021 period. The proportion then reduced to 46.0% of the taxes borne in 2022.

Less noticeable changes to the profile occurred in irrecoverable VAT and employment taxes, which have remained similar to the level in 2020.

The changing profile reflects the decrease in the corporation tax rate, the legacy of the financial crisis, and increased rates of NIC and VAT over the six surveys. While the sector's TTC has become less dependent on profit, the decreasing trend of corporation tax as a share of the total has stabilised. This is particularly noticeable in the normalised share of corporation tax in 2022 after the transitional quarterly instalment payment transitional period had ended.

Profile of taxes paid survey participants (continued)

Figure 5 – Taxes borne by percentage: Comparison of the results over the years



Source: Study participants in each year. Results are on an overall basis.

In previous surveys, the profile of taxes borne had changed with a shift from corporation tax to irrecoverable VAT and other business taxes borne. The decreasing trend of the share of corporation taxes has now stabilised.

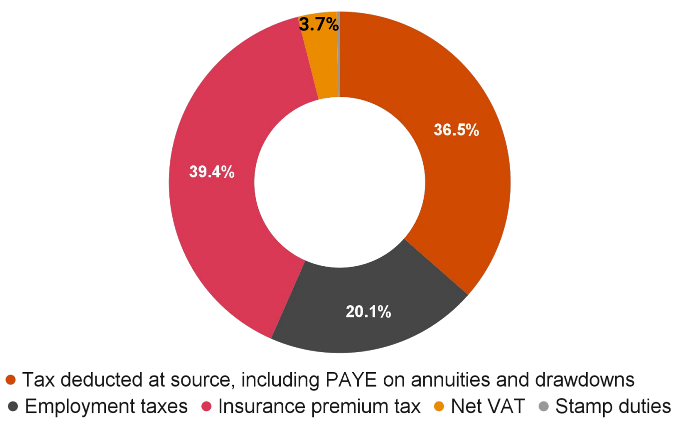
Profile of taxes collected

Figure 6 shows the profile of taxes collected for the survey companies. Taxes collected from employees and customers are not a direct cost to the companies, but they bear the cost of administration. The companies are responsible for administering these taxes and paying the amounts collected to the Government. Therefore, we can measure the cash contribution to UK tax revenues.

The figures for taxes collected are more prominent than taxes borne and represent a significant compliance obligation. For every £1 of corporation tax paid by the ABI members, there is another £5.37 (2020: £6.33) in taxes collected. Survey participants collected seven different taxes in the UK.

In the 2022 study, insurance premium tax administered by general insurers accounts for the most significant proportion of the taxes collected by ABI members at 39.4% (2020: 40.5%). The insurance sector plays a vital role in administering other taxes on behalf of the government, such as tax deducted at source, including PAYE on annuities and drawdowns, paid by life insurance companies, which amounted to 36.5% (2020: 25.1%) of taxes collected. Employment tax collected (both employers NIC and PAYE) also plays a significant part in the tax collected profile, accounting for 20.1% (2020: 28.2%).

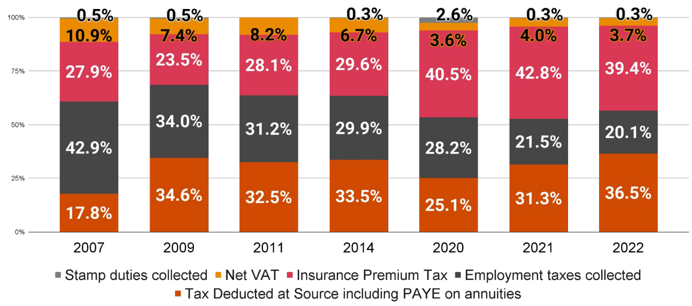
Figure 6 – Taxes collected by type of tax



Source: Study participants. Results on an overall basis.

As shown in Figure 7, the profile of taxes collected is consistent between 2009 and 2014. IPT increased from 2014 after the rate increased from 6% to 12%. Since then, the decreasing proportion of IPT in relation to the total does not mean a fall in the collection in absolute terms – It remained broadly constant between 2020 and 2022 (£3.1bn to £3.4bn). The decrease of IPT as a percentage of taxes collected was due to the increase of tax deducted at source, including PAYE on annuities, from £1.9bn to £3.2bn since 2020.

Figure 7 – Taxes collected by percentage: Comparison of the results over the years

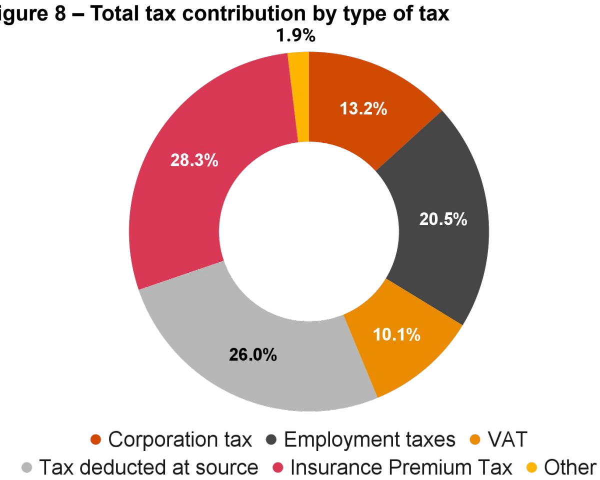


Source: Study participants in each year. Results on an overall basis.

Profile of total tax contribution

Figure 8 combines the figures for taxes borne and taxes collected to show the TTC profile. Insurance premium tax generates the most significant amounts of tax paid into UK public finances. In 2022, insurance premium taxes are 28.3% (2020: 29.0%) of the TTC. Taxes deducted at source, including PAYE on annuities and drawdowns, are the next largest, at 26.0% (2020: 17.9%), followed by employment taxes borne and collected at 20.5% (2020: 26.9%). Industry taxes are, therefore, an essential element of the profile of TTC for these companies. Corporation tax is smaller as a percentage of TTC compared to industry and employment taxes, at 13.2% (2020: 11.3%) of the total.

Figure 8 – Total tax contribution by type of tax



Source: Study participants. Results are on an overall basis.

Comparing the different tax profiles for general and life insurers

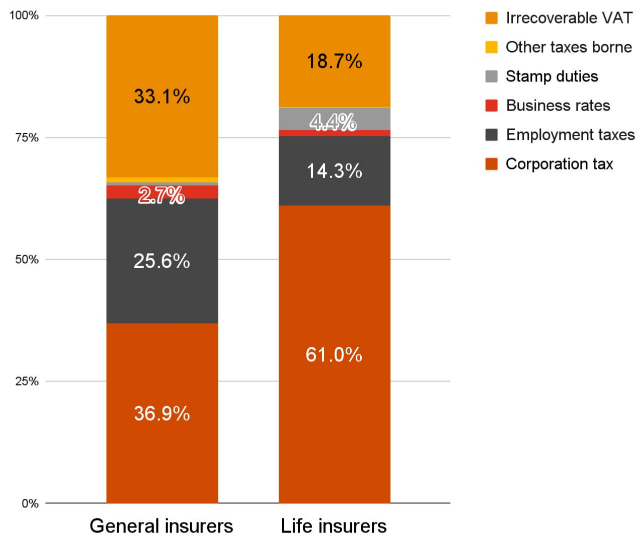
From the data provided by the participants, we identified thirteen (2020: nine) companies operating substantially in the general insurance business and eight (2020: seven) companies operating materially in the life insurance business. Eight (2020: eight) companies consider themselves composites in the insurance sector. Therefore, as part of this year's survey, we asked these companies to provide a breakdown of their general and life insurance operations. This allows us to review the tax profile of general and life insurance companies separately.

Taxes borne

Figure 9 shows the profile of taxes borne for general and life insurance survey participants in 2022. Corporation tax is the most significant tax paid for general insurers, at 36.9% (2020: 31.3%) of the total. Irrecoverable VAT is the second largest tax paid at 33.1% (2020: 37.3%) of the whole, and employers' NIC at 25.6% (2020: 26.3%) is also a significant tax cost for the general insurer.

For life insurance companies, corporation tax (including a policy and equity holder tax) is the most significant tax cost, at 61.0% (2020: 51.7%). Irrecoverable VAT is the second largest tax borne at 18.7% (2020: 19.5%). Employers' NIC makes less of the total tax borne at 14.3% (2020: 19.1%) for life insurance companies than for general.

Figure 9 – Profile of total taxes borne for general and life insurers



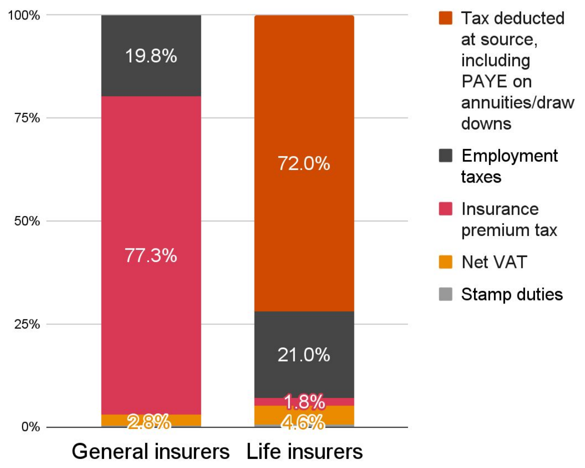
Source: Study participants. Results on an overall basis.

Taxes collected

As shown in Figure 10, insurance premium tax is the most significant tax collected for the general insurers, at 77.3% (2020: 72.8%) of the total, and PAYE on annuities and drawdowns is the most significant tax collected for the life insurers, at 72.0% (2020: 55.7%) of the total. This highlights the stark difference in the tax profile for these sub-sectors.

General and life insurance companies that participated in the study collected IPT and tax deducted at source (including PAYE on annuities and drawdowns) together of £6.5bn (2020: £5.0bn). This highlights that insurance sector taxes (including IPT and tax deducted at source) are an essential element of the TTC insurance companies collect and administer on behalf of the UK Government and impose a significant administrative burden on the insurers.

Figure 10 – Total taxes collected profile for general and life insurers



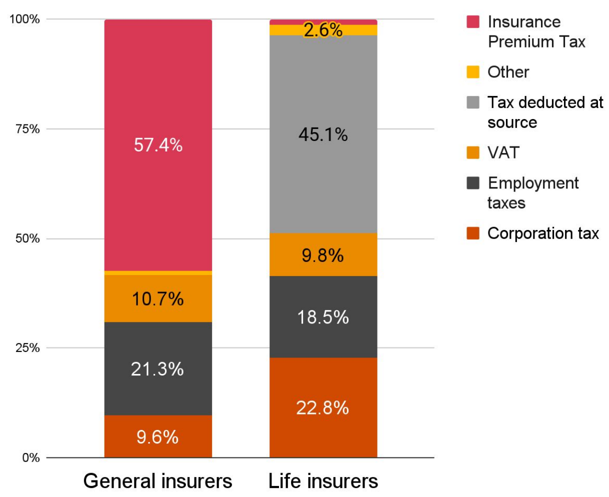
Source: Study participants. Results on an overall basis.

General and life insurance companies that participated in the study collected **£6.5bn** of tax deducted at source (including PAYE on annuities and drawdowns) and Insurance Premium Tax combined.

Total tax contribution

Figure 11 shows the profile of TTC for general and life insurance survey participants in 2022. General and life insurers experience differing tax profiles. Insurance premium tax is a significant tax for general insurers at 57.4% (2020: 59.4%), whereas tax deducted at source (including PAYE on annuities and drawdowns) is substantial for life insurers at 45.1% (2020: 39.8%). This emphasises the stark differences in the tax profile for the different sub-sectors.

Figure 11 – Profile of Total tax contribution for general and life insurers



Source: Study participants. Results on an overall basis.

Trends in tax payments

Trends between the 2020 and 2022 surveys

To understand the changes in the separate taxes that make up the taxes borne and taxes collected, the statutory tax rate changes between the years, and the impact that these might have on insurance companies, we can compare data for the insurers that participated in the 2020 and 2022 surveys.

Nineteen insurance companies provided data for both the 2020 and 2022 surveys. We have therefore been able to look at the trends in tax payments for these companies on a like-for-like basis[12].

Taxes borne

Total taxes borne remained consistent, with an increase of 0.1% for the companies in the 2020 and 2022 surveys. Figure 12 shows how particular taxes contributed to this trend. Employment taxes borne are the primary drivers of this increase, contributing 2.2 percentage points to the overall growth due to increased salaries during the period. This increase was primarily offset by a decrease in corporation tax (2.7 percentage points).

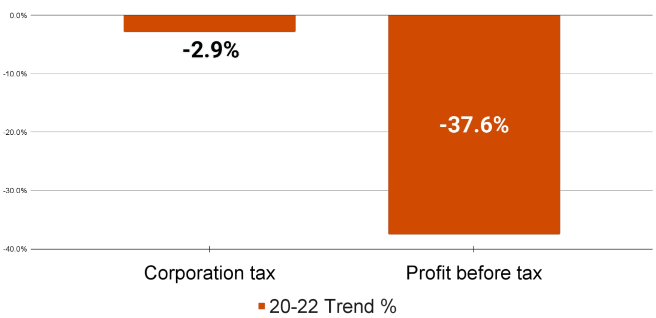
Figure 12 – Trend in taxes borne between the 2020 and 2022 surveys

Taxes borne	Percentage change
Corporation tax	-2.7%
Employment taxes borne	2.2%
Irrecoverable VAT	1.3%
Business rates	-0.2%
Stamp duties	-0.4%
Other taxes borne	-0.1%
Total	**0.1%**

Corporation tax trends

Figure 13 shows the trend of profits before taxes and corporation tax paid for ABI members who took part and provided both data points in the 2020 and 2022 surveys. Corporation tax paid has decreased by -2.9% between 2020 and 2022, driven by a decrease in profitability and investment returns. The tax regime for life insurance companies is different to the general insurance companies, and the link between profitability and corporation tax is complex.

Figure 13 – Trends in corporation tax (on a like-for-like basis)



Source: Survey participants that provided data for corporation tax and PBT in 2020 and 2022.

The life insurance businesses pay corporation tax on investment returns under the UK I-E tax regime; broadly, investment returns less management expenses, so a direct correlation with profit would not be expected. Corporation tax will be volatile depending on market movements. In 2020, there were significant increases in bond and gilt values, leading to large investment returns and associated corporation tax payments. These reversed in 2021, giving rise to losses and significantly reduced corporation tax payments.

Taxes collected

As shown in Figure 14, total taxes collected increased by 9.7% between 2020 and 2022 for the nineteen companies providing data for both surveys. Figure 14 shows how particular taxes contributed to this trend. The increase is mainly driven by a higher amount of tax deducted at source – PAYE deducted by insurance companies administering pension funds on behalf of other companies increased by 8.8 percentage points. This is discussed in further detail below. The second largest driver was employee income tax (PAYE) which increased tax collected by 0.9 percentage points. Insurance premium taxes collected and employee NICs also contributed to the increase by 0.7 and 0.1 percentage points, respectively. This was offset by a slight decrease in stamp duty reserve tax (0.2 percentage points) and net VAT (0.6 percentage points).

Figure 14 – Trend in taxes collected between the 2020 and 2022 surveys

Taxes collected	Percentage change
Insurance Premium Tax (IPT)	0.7%
Tax deducted at the source	8.8%
Employee income tax (PAYE)	0.9%
Stamp duty reserve tax	-0.2%
Employee NIC	0.1%
Net VAT	-0.6%
Total	**9.7%**

The increase in the tax deducted at source could be explained by the rise in the total number of pension plans accessed for the first time in 2021/22, increasing by 18% to 705,666 compared to 2020/21. Furthermore, drawdowns of pensions also saw an increase of 24% from 165,988 in 2020/21 to 205,641 in 2021/22. The overall value of money withdrawn from pension pots also rose to £45,638m in 2021/22 from £37,432m in 2020/21 – an increase of 22%[13].

Total tax contribution

Figure 15 shows the trend of TTC for the companies participating and providing data in the 2020 and 2022 surveys. This group's TTC has increased by 6.9%, driven by the taxes collected.

Figure 15 – Trend in Total tax contribution between the 2020 and 2022 surveys

	Absolute percentage increase	Percentage change
Total taxes borne	0.1%	0.0%
Total taxes collected	9.7%	6.9%
Total		**6.9%**

[12] Data is included in the trend analysis only where a company participated and provided data for the same taxes in both surveys.

[13] Financial Conduct Authority, Retirement income market data 2021/22, available at https://www.fca.org.uk/data/retirement-income-market-data-2021-22.

Employment taxes

Employment taxes paid by the ABI membership

Employment is a meaningful way the insurance sector contributes to the UK economy. ABI membership employs highly skilled, well-paid employees. These taxes provide a more stable source of revenue for the government than corporation tax receipts, which can be volatile and depend on profitability and the economic cycle.

In 2017, the Apprenticeship Levy was introduced and is a levy on UK employers with annual pay bills over £3m, at 0.5% of the annual pay bill. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the TTC framework also captures the amounts claimed by participants to pay for apprenticeship training. The net apprenticeship levy corresponds to the amount paid less the amount utilised to fund apprenticeships.

Figure 16 shows that total employment taxes borne and collected comprises £719.6 million (2020: £699.4 million) of employers' NIC, £8.0 million (2020: £14.8 million) of PSA (tax on benefits), £19.9 million (2020: £17.1 million) in net apprenticeship levy, £1,251.5 million (2020: £1,825.6 million) of income tax deducted under PAYE and £493.2 million (2020: £354.9 million) of employees' NIC.

Figure 16 – Employment taxes borne and collected by survey participants

	£ million
Employment taxes borne	
Employers' NIC	719.6
PSA (tax on benefits)	8.0
Net apprenticeship levy	19.9
Total	**747.5**
Employment taxes collected	
Employees' NIC	493.2
PAYE	1,251.5
Total	**1,744.7**
Total employment taxes borne and collected	**2,492.2**

Wages and salaries and employment taxes per employee

The survey participants paid an average[14] amount of £21,637 per employee to the UK public finances in employment taxes (taxes borne £6,741 and taxes collected £14,895)[15]. Employment taxes per employee indicate the direct contribution to the UK Exchequer for each job created or maintained in the insurance sector.

Figure 17 below shows the positioning of the average employment taxes per employee paid to the UK public finances compared to the 100 Group survey and the City of London survey. As seen below, the ABI's employment taxes per employee is nearly double that of the 100 Group but lower than the City of London's.

Figure 17 – Positioning of ABI in comparison to 100 Group and City of London

Employment taxes per employee	(£)
2022 ABI TTC survey participants	21,637
2022 100 Group survey[16]	12,903
2020 City of London survey[17]	31,620

Trends in employment taxes

Figure 18 shows the trends in employment taxes for ABI members that provided data in the 2020 and 2022 surveys.

Figure 18 – Trends in employment taxes for ABI members on a like-for-like basis

	Absolute percentage increase	Percentage change
Employment taxes borne	9.3%	2.7%
Employment taxes collected	3.4%	2.4%
Total employment taxes		**5.1%**

Source: Study participants that provided data in both 2020 and 2022 surveys.

The employment taxes borne and collected increased by 5.1%. This was driven by an increase in wages and salaries (3.53 percentage points). Despite the number of employees decreasing by 5.7% on a like-for-like basis, the survey participants employed 84.4% of the total UK workforce in the insurance sector. They employed 96,666 people (2020: 91,909).

[14] The average employment tax per employee was calculated by taking the total employment taxes for the survey population and dividing it by the total number of employees in the population.

[15] For 2020, employment taxes borne per employee were £7,841 and employment taxes collected per employee were £23,360. A comparison would not be appropriate as this is not on a like-for-like basis.

[16] The 100 Group of Finance Directors, 2022 The 100 Group TTC Study. The latest survey results were used as reference. Available at: https://www.pwc.co.uk/tax/assets/pdf/total-tax-contribution-100-group-2022.pdf.

[17] The City of London Corporation, 2020 City of London Total Tax Contribution study. The latest survey results were used as reference. Available at: https://www.cityoflondon.gov.uk/assets/Business/total-tax-contribution-2020.pdf.

Total tax contribution in context

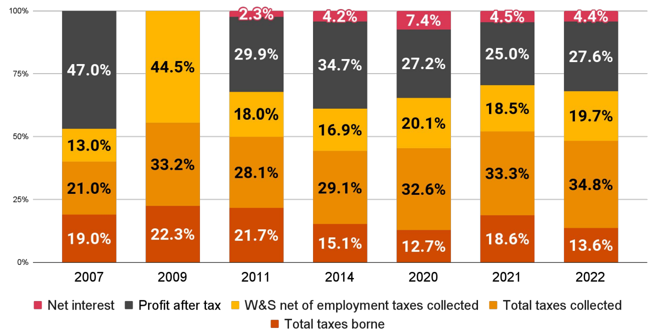
Value distributed

In addition to providing data on their UK total taxes borne and collected, survey participants also provided data on other aspects of their UK economic footprint, including wages and salaries paid to employees and profit after taxes (amount retained in the company for reinvestment and distribution to their shareholders). This has enabled us to show how value is distributed to different stakeholders (including employees, shareholders and government) in the insurance sector.

Figure 19 shows that in 2022, 48.4% (2020: 45.3%) of value distributed by insurance companies was paid to the government (in taxes borne 13.6% and taxes collected 34.8%)[18]. 27.6% (2020: 27.2%) was paid to shareholders or retained for reinvestment, 19.7% (2020: 20.1%) was paid to employees (wages and salaries net of employment taxes collected), and 4.4% (2020: 7.4%) was financing cost (interest paid net of interest received).

Figure 19 – Taxes borne and collected as a percentage of value distributed

Comparison of results over the years



Source: Study participants for each year. Data was not available for profit after tax and net interest in 2009 due to the losses arising due to the aftermath of the financial crisis.

2022 survey results show that UK Government is still the largest beneficiary of the value distributed by the survey participants. Taxes borne and collected paid to the government account for **48.4%** of the value distributed.

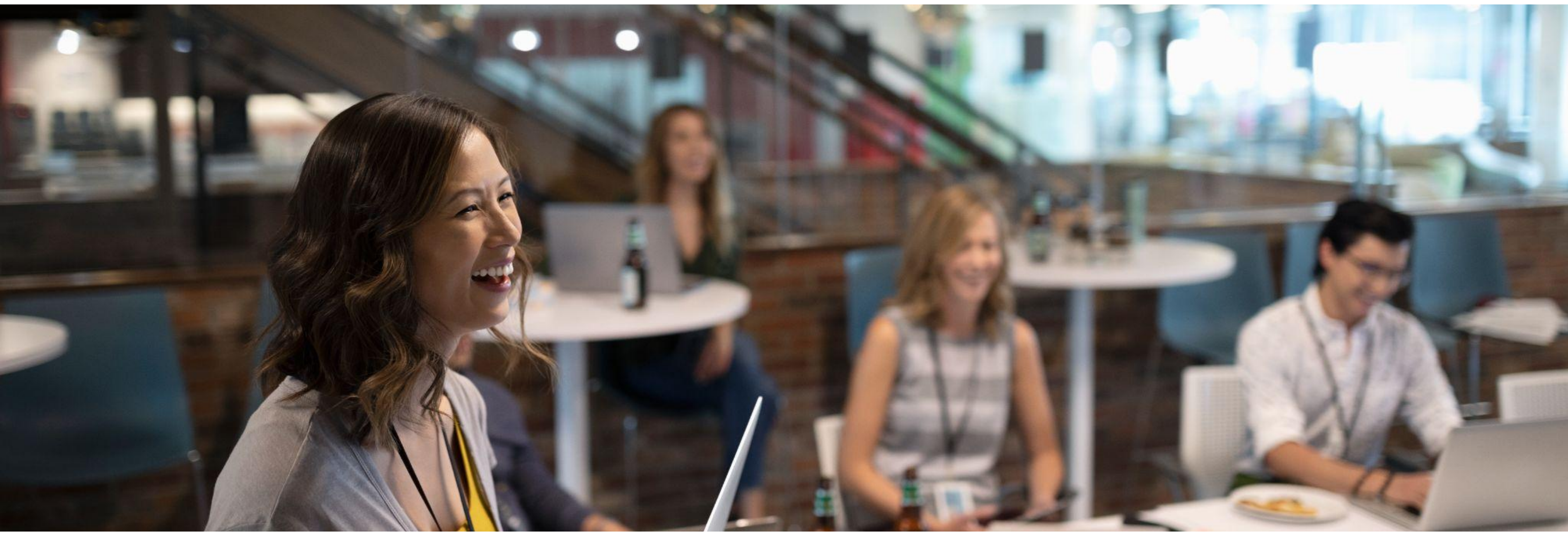
[18] For 2020, taxes borne were 12.7% and taxes collected were 32.6% out of the total value distributed.

Appendices

Appendix I - list of UK taxes borne and collected by insurance companies

Types of taxes borne and collected by insurance companies

	Tax borne	Tax collected
Profits taxes		
Corporation tax	✓	
PAYE on annuities		✓
Tax deducted at the source		✓
Property taxes		
Business Rates	✓	
Stamp Duty Land Tax	✓	
Stamp Duty Reserve Tax	✓	✓
People taxes		
Income tax under PAYE		✓
PSA (tax on benefits)	✓	
Employees' National Insurance Contributions		✓
Employers' National Insurance Contributions	✓	
Net apprenticeship levy	✓	
Product taxes		
Air passenger Duty	✓	
Customs duties	✓	
Fuel duties	✓	
Insurance Premium Tax	✓	✓
Irrecoverable VAT	✓	
Net VAT		✓
Vehicle Excise Duty	✓	
Planet taxes		
Landfill Tax	✓	
Carbon Reduction Commitment	✓	
Congestion Charge	✓	
Climate Change Levy	✓	



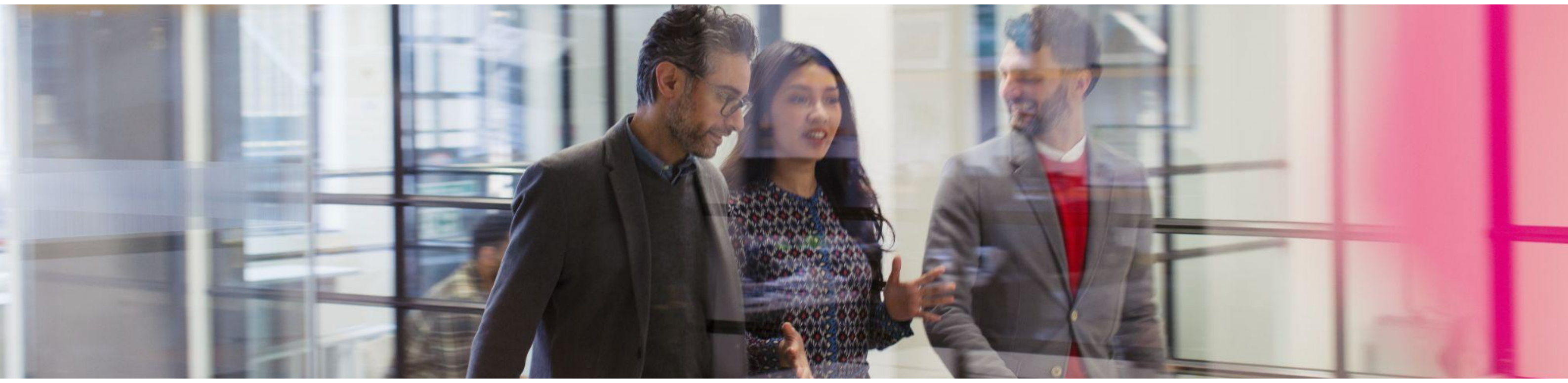
Appendices
Appendix II – data provided

Taxes borne

£		Total
Profit taxes	Corporation tax	1,612,595,546
Property taxes	Business rates	75,867,900
	Stamp duty land tax	84,098,777
	Stamp duty reserve tax	41,985,222
People taxes	PSAs (tax on benefits)	8,034,132
	Employer's NIC	719,566,886
	Net Apprenticeship Levy	19,928,423
Product taxes	Air passenger duty	332,581
	Fuel duties	347,433
	Insurance premium tax	30,832,692
	Irrecoverable VAT	904,421,399
	Vehicle excise duty	5,575,585
Planet taxes	Climate change levy	787,628
	Congestion charge	3,000
	Landfill tax	2,386
	Total taxes borne	**3,504,379,590**

Taxes collected

£		Total
Profit taxes	Tax deducted at source – PAYE on annuities and drawdowns	3,090,611,992
	Tax deducted at source – Other	69,527,644
Property taxes	Stamp duty reserve tax	24,627,282
People taxes	PAYE	1,251,507,393
	Employee NIC	493,184,121
Product taxes	Net VAT	319,269,742
	Insurance premium tax	3,418,207,064
	Total taxes collected	**8,666,935,239**



Appendices

Appendix III – glossary of taxes

This section provides further detail on some individual taxes.

£	
Taxes borne include:	
Irrecoverable VAT	When a business supplies goods and services to its customers, it generally charges VAT and offsets against any VAT incurred on purchases used to run the business (input VAT). Where the services offered by a company are VAT exempt, VAT is not charged to customers. This is the case for many FS activities; therefore, FS companies cannot recover their input VAT, leading to irrecoverable VAT.
Apprenticeship Levy	This was introduced in 2017 and is a levy on UK employers with annual pay bills over £3m, at 0.5% of the annual pay bill. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the TTC framework also captures the amounts claimed by participants to pay for apprenticeship training.
PAYE Settlement Agreements	A PAYE Settlement Agreement (PSA) enables employers to make a single annual payment to HMRC to settle all tax and NIC due on certain expenses and benefits provided to employees.
Taxes collected include:	
Tax Deducted at the Source	Tax is deducted at source on certain payments made by insurers companies and paid to HMRC. Tax is deducted at source from: • Royalty payments. • Interest paid to companies in some circumstances. • PAYE deducted by insurance companies who are administering pension funds on behalf of other companies. • Property income distributions made by real estate companies.
Insurance Premium Tax (IPT)	Insurance Premium Tax (IPT) is levied on general insurance contracts and is collected by insurance companies on insurance policies sold (excluding life insurance policies).
Stamp Duty Reserve Tax (SDRT) and Stamp Duty (SD)	Stamp duty reserve tax is paid on shares traded electronically. It is a tax borne where a company trades shares on its own account and a tax collected where a company trades shares on behalf of a third party. Stamp duty is paid on shares traded using a physical document.
Net VAT	VAT is a tax collected by companies on the sale of goods and services. VAT is separately identified on the sales invoice. Input VAT suffered by the company on its purchases can be offset against the output VAT charged on the sale to customers, and it is the net VAT that is paid over to tax authorities. Net VAT is treated for the purposes of this report as a tax collected. In some cases, the company may be unable to set off input VAT, and it becomes irrecoverable. To the extent that VAT is irrecoverable, it is a tax borne, as mentioned above.